

PUEBLO COMMUNITY HEALTH CENTER, INC.

**FINANCIAL STATEMENTS
AND
ADDITIONAL INFORMATION
WITH
INDEPENDENT AUDITORS' REPORT**

**TOGETHER WITH
GOVERNMENT AUDITING STANDARDS
AND OMB CIRCULAR A-133 REPORTS**

DECEMBER 31, 2012 AND 2011

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Pueblo Community Health Center, Inc.
Pueblo, Colorado

Report on the Financial Statements

We have audited the accompanying financial statements of Pueblo Community Health Center, Inc., (a nonprofit organization) which comprise the statements of financial position as of December 31, 2012 and 2011 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pueblo Community Health Center, Inc., as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expenses on page 12 and the schedule of expenditures of federal awards on page 14, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for purposes of additional analysis and are not required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2013 on our consideration of the Pueblo Community Health Center, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pueblo Community Health Center, Inc.'s internal control over financial reporting and compliance.

McPherson, Benfogh, Durbin & Goodrich, PC

March 7, 2013

PUEBLO COMMUNITY HEALTH CENTER, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 4,127,335	\$ 3,397,138
Certificates of deposit	115,270	115,232
Patient accounts receivable, net of billing adjustments and allowance for doubtful accounts totaling \$739,130 and \$726,398, respectively	2,047,537	1,675,856
Due from federal government	1,694,511	1,872,198
Other receivables	18,586	146,248
Prepaid expenses	66,857	71,097
Escrow deposit	2,618	67,650
Inventory	75,492	95,359
Unamortized bond issuance costs	68,944	37,154
Other assets	1,333	1,333
Property and equipment, net	<u>14,134,352</u>	<u>14,333,935</u>
TOTAL ASSETS	<u><u>\$ 22,352,835</u></u>	<u><u>\$ 21,813,200</u></u>
 LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 651,083	\$ 629,306
Accrued expenses and other liabilities	809,771	716,918
Deferred revenue - federal government grant	1,694,511	1,872,198
Deferred revenue - other	311,840	83,333
Bond payable, net of unamortized discount	<u>1,783,333</u>	<u>1,887,773</u>
TOTAL LIABILITIES	<u>5,250,538</u>	<u>5,189,528</u>
 NET ASSETS		
Unrestricted	17,102,297	16,610,375
Temporarily restricted	<u>-</u>	<u>13,297</u>
TOTAL NET ASSETS	<u>17,102,297</u>	<u>16,623,672</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 22,352,835</u></u>	 <u><u>\$ 21,813,200</u></u>

The accompanying notes are an integral part of these statements.

PUEBLO COMMUNITY HEALTH CENTER, INC.
STATEMENTS OF ACTIVITY
YEARS ENDED DECEMBER 31, 2012 AND 2011

	Year Ended December 31, 2012		
	Unrestricted	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT			
Patient revenues, net of billing adjustments of \$16,484,841 for 2012 and \$14,736,577 for 2011	\$ 14,356,271	\$ -	\$ 14,356,271
Direct federal funds	4,035,745	-	4,035,745
Federal pass-through funds	428,446	-	428,446
State of Colorado, primary care fund	-	-	-
Other grants	988,206	-	988,206
Net pharmacy sales	757,161	-	757,161
Contributions	293,994	8,511	302,505
Interest income	804	36	840
Other	14,270	-	14,270
Net assets released from restrictions	21,844	(21,844)	-
TOTAL REVENUES AND OTHER SUPPORT	20,896,741	(13,297)	20,883,444
EXPENSES			
Program services -			
Medical	6,535,927	-	6,535,927
Nursing	3,788,833	-	3,788,833
Dental	1,212,594	-	1,212,594
Clinical	3,441,167	-	3,441,167
Pharmacy	1,241,737	-	1,241,737
School based wellness	336,973	-	336,973
	16,557,231	-	16,557,231
General and administrative	2,613,661	-	2,613,661
	19,170,892	-	19,170,892
Nongrant expenses -			
Depreciation	745,430	-	745,430
Bad debts	290,208	-	290,208
Interest and fiscal expense	56,930	-	56,930
Loss on disposal of assets	27,823	-	27,823
Donation to Foundation	101,194	-	101,194
Other	12,342	-	12,342
TOTAL EXPENSES	20,404,819	-	20,404,819
CHANGE IN NET ASSETS	491,922	(13,297)	478,625
NET ASSETS AT BEGINNING OF YEAR	16,610,375	13,297	16,623,672
NET ASSETS AT END OF YEAR	\$ 17,102,297	\$ -	\$ 17,102,297

The accompanying notes are an integral part of these statements.

Year Ended December 31, 2011

Unrestricted	Temporarily Restricted	Total
\$ 13,344,016	\$ -	\$ 13,344,016
4,038,680	-	4,038,680
238,615	-	238,615
(14,705)	-	(14,705)
88,150	-	88,150
755,885	-	755,885
328,335	7,155	335,490
1,819	117	1,936
51,244	-	51,244
68,752	(68,752)	-
<u>18,900,791</u>	<u>(61,480)</u>	<u>18,839,311</u>
5,937,312	-	5,937,312
3,355,393	-	3,355,393
1,142,655	-	1,142,655
3,109,098	-	3,109,098
1,245,530	-	1,245,530
<u>350,177</u>	<u>-</u>	<u>350,177</u>
15,140,165	-	15,140,165
<u>2,591,150</u>	<u>-</u>	<u>2,591,150</u>
17,731,315	-	17,731,315
760,652	-	760,652
294,393	-	294,393
40,342	-	40,342
3,608	-	3,608
103,941	-	103,941
<u>13,573</u>	<u>-</u>	<u>13,573</u>
<u>18,947,824</u>	<u>-</u>	<u>18,947,824</u>
(47,033)	(61,480)	(108,513)
<u>16,657,408</u>	<u>74,777</u>	<u>16,732,185</u>
<u>\$ 16,610,375</u>	<u>\$ 13,297</u>	<u>\$ 16,623,672</u>

PUEBLO COMMUNITY HEALTH CENTER, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 478,624	\$ (108,513)
Adjustments to reconcile increase in net assets to net cash provided by operating activities -		
Depreciation	745,430	760,652
Bad debt expense	290,208	294,393
Amortization of bond issuance costs	2,796	25,038
(Gain)/loss on disposal of property and equipment	27,823	3,608
Change in assets and liabilities -		
Accounts receivable	(680,475)	(839,465)
Due from federal government	177,687	(108,170)
Other receivables	146,248	(131,543)
Prepaid expenses	4,240	(4,918)
Other assets	-	(1,333)
Escrow deposit	65,032	-
Inventory	19,867	7,697
Accounts payable	21,777	249,171
Deferred revenue - other	228,507	83,333
Deferred revenue - federal government grant	(177,687)	187,684
Accrued expenses and other liabilities	92,854	76,337
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	<u>1,442,931</u>	<u>493,971</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of certificates of deposit	(38)	(163)
Purchase of fixed assets	(573,670)	(1,694,701)
NET CASH FLOWS (USED) BY INVESTING ACTIVITIES	<u>(573,708)</u>	<u>(1,694,864)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Bond issue costs	(34,026)	-
Principal payment on long-term debt	(105,000)	(100,000)
NET CASH FLOWS (USED) BY FINANCING ACTIVITIES	<u>(139,026)</u>	<u>(100,000)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	730,197	(1,300,893)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>3,397,138</u>	<u>4,698,031</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,127,335</u>	<u>\$ 3,397,138</u>
SUPPLEMENTAL DATA		
Interest paid	<u>\$ 10,823</u>	<u>\$ 11,003</u>

The accompanying notes are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activity – Pueblo Community Health Center, Inc. (PCHC) is organized to provide community-oriented primary health care to those in need located in Pueblo County, Colorado.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Patient Accounts Receivable – Patient accounts receivable are stated at the gross amount of charges for patient services less an allowance for billing adjustments and an allowance for doubtful accounts. The billing adjustment allowance is based upon PCHC's adopted sliding fee scale and management's estimate of payments from third party reimbursements. Accounts are written off when they are transferred to a collection agency.

Grants – Revenue from federal and other grants is recognized when earned which is generally as expenses are incurred.

Inventory – Pharmacy inventory is stated at the lower of cost or market determined by the first-in, first-out method.

Property and Equipment – PCHC capitalizes all expenditures for property and equipment totaling \$5,000 or more. Property and equipment are recorded at cost, or in the case of contributed items, fair value on the date of contribution. Depreciation expense is computed on the straight-line method based on the estimated useful lives of the related assets. Depreciation expense totaled \$745,430 for the year ended December 31, 2012 and \$760,652 for the year ended December 31, 2011. Following is a summary of the estimated useful lives:

Buildings	20-40 years
Improvements	5-20 years
Equipment	3-5 years

Employee Benefits – For each full time employee, PCHC contributes 3% of the employee's gross pay to a tax-sheltered annuity after one year of continuous service. PCHC contributed \$283,828 and \$247,828 to these plans during 2012 and 2011 that have been charged to expense.

Deferred Compensation Plans – PCHC maintains an IRC Section 457(b) deferred compensation plan covering the Center's chief executive officer and executive management team members. Under the terms of the plan, each participant is eligible to make elective deferrals up to the maximum amount permitted by law and PCHC may make non-elective contributions as approved by the board of directors. For the years ended December 31, 2012 and December 31, 2011, the Center did not contribute to this plan.

Deferred revenue – Deferred revenue-other represents cash received but not yet earned.

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Income Taxes – PCHC is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code for activities related to its exempt purpose. Income from certain activities, not directly related to PCHC's tax-exempt purpose, if received, is subject to taxation as unrelated business income. The tax years ended December 31, 2011, 2010, and 2009, together with the current tax year, remain subject to examination by the Internal Revenue Service.

In addition, the Center qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Cash and Cash Equivalents – For the purposes of the statements of cash flows, PCHC considers all unrestricted highly liquid investments with an initial maturity of three months or less when acquired to be cash equivalents.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted, depending on the existence or nature of any donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statements of activity as net assets released from restrictions.

Reclassifications – Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31, 2012 and 2011 are summarized as follows:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Cash on hand	\$ 3,130	\$ 3,130
Demand deposits	2,837,736	2,107,666
Money market funds held at brokerage companies	<u>1,286,469</u>	<u>1,286,342</u>
	<u>\$ 4,127,335</u>	<u>\$ 3,397,138</u>

During the course of normal operations, PCHC carries bank balances that are not insured by the Federal Deposit Insurance Corporation, nor are they collateralized in any other fashion and those balances totaled \$2,327,542 at December 31, 2012. This amount of uninsured and uncollateralized demand deposits is reported based on the expiration of the temporary unlimited coverage provided by the Federal Deposit Insurance Corporation for certain accounts that became effective January 1, 2013.

Money market funds held at brokerage companies are not insured by the Federal Deposit Insurance Corporation.

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

**NOTE 3 – DUE FROM FEDERAL GOVERNMENT/DEFERRED REVENUES -
FEDERAL GOVERNMENT**

The balance due from the federal government represents the balance of the Center's two federal grants. The consolidated health center grant covers the period June 1, 2011 to May 31, 2012 and June 1, 2012 to May 31, 2013, respectively and the Ryan White grant covers the period April 1, 2011 to March 31, 2012 and April 1, 2012 to March 31, 2013. These receivables have been included in deferred revenues - federal government since the entire amount of the grant has not yet been earned. The portion of the due from federal government that exceeds the deferred revenue represents the portion of the grant that has been earned but not collected. For the years ended December 31, 2011, the Center received an American Recovery and Reinvestment Act (ARRA) capital improvement grant which covered the period June 29, 2009 to June 28, 2011. This ARRA grant was fully expended during the year ended December 31, 2011, therefore no amounts were included in due from the federal government and deferred revenues – federal government at December 31, 2011.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2012 and 2011 are summarized as follows:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Land	\$ 1,461,845	\$ 1,391,295
Buildings	8,377,263	8,429,522
Improvements	5,925,985	6,271,971
Equipment	<u>3,009,150</u>	<u>3,014,198</u>
	18,774,243	19,106,986
Accumulated depreciation	<u>(5,365,242)</u>	<u>(5,044,881)</u>
	13,409,001	14,062,105
Construction in progress	<u>725,351</u>	<u>271,830</u>
 NET PROPERTY AND EQUIPMENT	 <u>\$ 14,134,352</u>	 <u>\$ 14,333,935</u>

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 5 – BOND PAYABLE

Bond payable is summarized as follows:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Wells Fargo variable rate demand revenue bonds, series 2008; quarterly interest and annual line of credit fees payable through November 1, 2033; current interest rate is 0.5%	\$ 1,795,000	\$ 1,900,000
Deferred amount of issuance discount	<u>(11,667)</u>	<u>(12,227)</u>
	<u>\$ 1,783,333</u>	<u>\$ 1,887,773</u>

A portion of the proceeds from the revenue bonds were used for the construction and equipping of a new health care facility located at 300 Colorado, Pueblo, Colorado which opened November 2, 2009. The remaining proceeds were used for improvements and renovations to existing clinical facilities which were completed in 2011.

The revenue bonds were remarketed on November 2, 2009 changing the interest rate mode from the one year interest rate mode to the three month interest rate mode. Principal payments on the revenue bonds are due on the maturity date of November 1, 2033, however periodic principal payments are allowed with advance notification at the option of PCHC.

NOTE 6 – NET ASSETS

Temporarily restricted net assets as of December 31 are as follows:

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Prenatal care and study	\$ -	\$ 3,588
Health expo	<u>-</u>	<u>9,709</u>
	<u>\$ -</u>	<u>\$ 13,297</u>

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 7– NET PHARMACY SALES

Net pharmacy sales consist of the following:

	<u>Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Gross pharmacy receipts	\$ 1,386,395	\$ 1,511,551
Pharmacy cost of goods sold	(629,234)	(755,666)
In-kind subsidy drugs received	443,576	714,071
In-kind subsidy drugs dispensed	<u>(443,576)</u>	<u>(714,071)</u>
	<u>\$ 757,161</u>	<u>\$ 755,885</u>

The subsidy drugs are received from various pharmaceutical companies and dispensed to PCHC's patients as directed by the pharmaceutical companies.

NOTE 8 – NET ASSETS RELEASED FROM RESTRICTIONS

A portion of temporarily restricted net assets were released from donor restrictions by incurring qualifying expenditures which satisfied the restricted purposes specified by the donors. The purpose restrictions accomplished included:

	<u>Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Prenatal care and study	\$ 12,140	\$ 7,470
Health expo	9,704	12,364
Infant oral care	<u>-</u>	<u>48,918</u>
	<u>\$ 21,844</u>	<u>\$ 68,752</u>

NOTE 9 – RELATED PARTY TRANSACTION

During the year ended December 31, 2012 and 2011, PCHC contributed \$101,194 and \$103,941 to the Pueblo Community Health Center Foundation, Inc. (the Foundation), which is an Internal Revenue Code 501(c)(3) entity. The Foundation and PCHC share board governance and the Foundation was formed to assist in fundraising for PCHC.

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012 AND 2011

NOTE 10 – CONCENTRATIONS OF REVENUE

PCHC received over 10% of its annual revenues from grants as follows:

	<u>Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Federal consolidated health center	<u>\$ 3,719,747</u>	<u>\$ 3,656,253</u>

NOTE 11 – COMMITMENTS AND CONTINGENCIES

PCHC identified, through its internal corporate compliance program initiatives, a possible Medicaid overpayment related to inadvertent billing errors for obstetrics services performed by nurses. The details of the matter were self-disclosed to the Colorado Medicaid program in January 2012. The amount of the possible overpayment has not yet been determined. PCHC's legal counsel has estimated the overpayment to be in the range of \$187,000 to \$447,000, depending on the conclusions reached by the Colorado Medicaid program. As of December 31, 2012 and 2011, PCHC included \$187,000 in accounts payable with an offsetting decrease in patient revenue for the year ended December 31, 2011, and management believes this amount is not significant to the financial position of PCHC taken as a whole.

The Federal government, through the Department of Health and Human Services, has granted and recorded a reversionary interest in the Center's property located at 110 Routt. This reversionary interest establishes certain notification and approval requirements prior to disposal.

PCHC uses a reimbursement method of payment for Colorado unemployment insurance. This payment method requires the issuance of a letter of credit in the amount of \$29,244 to the Colorado Department of Labor and Employment which expires February 22, 2014. As of December 31, 2012, no funds had been advanced against the letter of credit.

NOTE 12 – PHARMACY MANAGEMENT AGREEMENT

The PCHC pharmacy is operated under a management agreement with Cardinal Health 109, Inc. and is limited to PCHC patients with prescriptions written by PCHC physicians. The pharmacy inventory, accounts receivable, and equipment are owned by PCHC.

NOTE 13 – SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2012 have been evaluated for possible adjustment or disclosure is March 7, 2013, which is the date the financial statements were available to be issued.

ADDITIONAL INFORMATION

PUEBLO COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2012 WITH COMPARATIVE TOTALS FOR 2011

	Program Services			
	<u>Medical</u>	<u>Nursing</u>	<u>Dental</u>	<u>Clinical</u>
Salaries and wages	\$ 4,691,544	\$ 2,416,153	\$ 820,835	\$ 1,994,157
Payroll taxes	297,834	182,380	58,532	149,226
Employee benefits	<u>370,726</u>	<u>348,139</u>	<u>74,746</u>	<u>326,486</u>
Total Personnel	5,360,104	2,946,672	954,113	2,469,869
Supplies	12,174	148,747	93,794	122,345
Pharmacy	2,026	415,805	594	2,299
Laboratory	66,691	-	7,990	-
Radiology	92,051	-	-	-
Referrals	186,948	-	79,931	-
Contract services	378,283	13,784	1,647	640,223
Occupancy	167,329	137,186	47,956	133,467
Insurance	39,565	-	-	-
Travel	7,524	35,610	-	7,484
Continuing education	32,476	-	5,335	-
Certifications and conferences	45,556	5,792	6,074	5,603
Printing	3,001	21,630	2,086	38,654
Telephone	70,577	28,891	10,629	18,672
Recruitment and retention	11,716	-	-	-
Board expenses	-	-	-	-
Postage	3,862	4,951	2,445	2,445
Professional fees	-	-	-	-
Advertising	-	12,099	-	-
Training	6,445	17,640	-	70
Miscellaneous	<u>49,599</u>	<u>26</u>	<u>-</u>	<u>36</u>
TOTAL EXPENSES	<u>\$ 6,535,927</u>	<u>\$ 3,788,833</u>	<u>\$ 1,212,594</u>	<u>\$ 3,441,167</u>

			Total		
School Based			General and Administrative		
<u>Pharmacy</u>	<u>Wellness</u>	<u>Total</u>		<u>2012</u>	<u>2011</u>
\$ 1,006,593	\$ 209,971	\$ 11,139,253	\$ 1,479,498	\$ 12,618,751	\$ 11,463,197
-	16,162	704,134	102,123	806,257	737,785
-	<u>35,567</u>	<u>1,155,664</u>	<u>228,821</u>	<u>1,384,485</u>	<u>1,622,910</u>
1,006,593	261,700	12,999,051	1,810,442	14,809,493	13,823,892
32,462	23,874	433,396	65,731	499,127	552,109
-	1,190	421,914	-	421,914	262,451
-	-	74,681	-	74,681	132,685
-	-	92,051	-	92,051	118,882
-	-	266,879	-	266,879	237,991
142,006	39,194	1,215,137	160,072	1,375,209	1,183,685
27,511	1,809	515,258	162,429	677,687	548,424
-	-	39,565	21,648	61,213	67,560
-	1,670	52,288	7,755	60,043	51,456
-	-	37,811	299	38,110	46,108
1,517	110	64,652	103,134	167,786	162,797
1,145	6,149	72,665	20,731	93,396	96,532
21,258	484	150,511	21,258	171,769	172,807
-	-	11,716	26,742	38,458	34,385
-	-	-	48,828	48,828	21,236
7,069	-	20,772	4,891	25,663	30,168
-	-	-	84,314	84,314	84,345
-	-	12,099	38,350	50,449	40,256
1,307	683	26,145	4,717	30,862	31,236
<u>869</u>	<u>110</u>	<u>50,640</u>	<u>32,320</u>	<u>82,960</u>	<u>32,310</u>
<u>\$ 1,241,737</u>	<u>\$ 336,973</u>	<u>\$ 16,557,231</u>	<u>\$ 2,613,661</u>	<u>\$ 19,170,892</u>	<u>\$ 17,731,315</u>

GOVERNMENT AUDITING STANDARDS

AND

OMB CIRCULAR A-133 REPORTS

PUEBLO COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012

SUMMARY OF INDEPENDENT AUDITORS' RESULTS

Financial Statements

An unmodified opinion was rendered on the basic financial statements of Pueblo Community Health Center, Inc. as of and for the year ended December 31, 2012.

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified? ☐ Yes ☒ None Reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency (ies) identified? ☐ Yes ☒ None Reported

An unmodified opinion on compliance for major programs was issued.

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ Yes ☒ No

Identification of major programs:

CFDA Number
93.224

Name of Federal Program
Health Centers Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee: ☒ Yes ☐ No

FINANCIAL STATEMENT FINDINGS

No findings relating to the basic financial statements that are required to be reported in accordance with *Government Auditing Standards* were noted.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs for federal awards were noted.

PUEBLO COMMUNITY HEALTH CENTER, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

<u>FEDERAL GRANTOR/PROGRAM TITLE</u>	<u>CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct assistance -			
Consolidated Health Centers	93.224	-	\$ 3,719,747
Ryan White Title III Early Intervention Services for HIV Disease	93.918	-	315,998
Passed through Colorado Department of Public Health and Environment - Centers for Disease Control and Prevention -			
		13 FLA 43222	
Investigations and Technical Assistance	93.283	13 FLA 48518	211,626
ACA Maternal, Infant & Early Childhood Home Visiting Program	93.505	13 FLA 48942	52,776
HIV Care Formula Grant	93.917	11 FHA 28190	1,535
Maternal and Child Health Services Block Grant	93.994	12-FLA-31987	11,994
Passed through University of Colorado			
Community Based Dental Partnership	93.924	5H65HA00015-11-00	66,963
Passed through Pueblo County -			
Special Programs for the Aging Title III, Senior Dental, Denture, Prescription and Eyeglass Program	93.044	Not Available	<u>83,552</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>4,464,191</u>
TOTAL FEDERAL EXPENDITURES			<u>\$ 4,464,191</u>

PUEBLO COMMUNITY HEALTH CENTER, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2012

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Pueblo Community Health Center, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Directors
Pueblo Community Health Center, Inc.
Pueblo, Colorado

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Pueblo Community Health Center, Inc., (the Center), which comprise the statement of financial position as of December 31, 2012 and the related statements of activities and cash flows for the year ended, and the related notes to the financial statements, and have issued our report thereon dated March 7, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pueblo Community Health Center, Inc.'s, internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pueblo Community Health Center, Inc.'s, internal control. Accordingly, we do not express an opinion on the effectiveness of Pueblo Community Health Center, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pueblo Community Health Center, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lee Pherson, Brynne, Darlene & Broderick, PC

March 7, 2013

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Board of Directors
Pueblo Community Health Center, Inc.
Pueblo, Colorado

Report on Compliance for Each Major Federal Program

We have audited the Pueblo Community Health Center, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Pueblo Community Health Center, Inc.'s major federal program for the year ended December 31, 2012. Pueblo Community Health Center, Inc.'s major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirement of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Pueblo Community Health Center, Inc.'s major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pueblo Community Health Center, Inc.'s, compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Pueblo Community Health Center, Inc.'s compliance.

Opinion on the Major Federal Program

In our opinion, Pueblo Community Health Center, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

Reports on Internal Control Over Compliance

Management of Pueblo Community Health Center, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pueblo Community Health Center, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pueblo Community Health Center, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Wm. P. Henson, Ruggles, Downing & Goodrich, PC

March 7, 2013